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CSR Web Reporting: The Influence of Ownership Structure and Mimetic Isomorphism

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Abstract

The rise in social networking and the increasing sophistication of current stakeholders who value timely information, have motivated corporations to use corporate websites to disseminate additional corporate social responsibility (CSR) information to stakeholders, to improve accessibility and to engage with a more diverse group of stakeholders. The aim of this study is to examine the factors that influence public-listed companies in Malaysia to communicate their CSR information via corporate websites in the context of both the agency and institutional theories. Using a sample of the 120 largest companies listed on Bursa Malaysia, an investigation into the relationship between ownership structure and mimetic isomorphism due to board interlock was undertaken over a period of six (6) months, from May to October 2010. The results of the study revealed that family and foreign ownership were significant factors in influencing the use of corporate websites to disseminate CSR information to stakeholders. However, board interlock did not precipitate imitation strategies amongst companies with similar board members. The overall quality of CSR information disclosed on corporate website proved to be generally low, with community dimension being the focus of disclosure.

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***Keywords:* Corporate Social Responsibility; Disclosure; Web Reporting; Malaysia**

1. Introduction

Corporate reporting on social and environmental issues have been increasing over the last decade, although most of the literature focused on hard copy social, environmental and, of late, sustainability reports. However, with the rise in social networking and the increasing sophistication of current stakeholders, companies are now exploring alternate means of reporting their CSR information and have begun to utilize

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their corporate websites to disseminate their CSR information to their stakeholders. This study seeks to investigate the factors that influence public-listed companies in Malaysia to use corporate websites to communicate their CSR information and the quality of the CSR information disclosed from the perspective of both the agency and institutional theories. Drawing from the agency theory, this study argues that managers voluntarily undertake to disclose CSR information via corporate websites in order to reduce their agency costs. In addition, mimetic isomorphism is used to explain management's imitation strategy of using corporate websites to gain legitimacy and to benchmark against leaders in their respective industries. These theories provide arguments for the alternative perspectives employed by management to disclose their CSR activities via corporate websites. Corporate ownership structure is being used to proxy for the agency theory while board interlock is applied to examine the mimetic isomorphism in respect of the institutional theory.

The remainder of this paper is organized as follows. The next section provides the literature review. Section 3 provides the research methodology. Section 4 deliberates on the research findings. The final section provides the concluding comments.

2. Literature review and generation of hypotheses

2.1. CSR web reporting

Prior researchers have highlighted the importance of the corporate websites as a means of disseminating sustainability information (see for example Frost *et al*., 2005; Adams and Frost, 2006; Branco and Rodrigues, 2008). The use of websites to disseminate CSR information offers the advantage of easy access, low costs of dissemination of information, wider coverage and timely information that can be easily updated (Adam and Frost, 2006). Studies of CSR communication on websites have also received attention in the Asian region (see for example, William and Pei, 1999; Chaudri and Wang, 2007).

2.2. Economic agency theory, ownership structure and CSR web reporting

The desire to reduce agency costs can be a motivating factor that influences companies to voluntarily use corporate websites as an additional medium to disseminate CSR information and the ownership structure of the companies will influence this decision by management. As such in this study, the various forms of ownership structure (government, family, foreign, director and concentrated ownership) are used to examine arguments relating to the agency theory. Government mandated initiatives will effectively compel companies to disclose CSR information because the government is a body that is trusted by the public (Said *et al*., 2009). Tagesson *et al*., 2009, also revealed that state-owned corporations disclose more social information on their websites than privately-owned entities. In addition, family-controlled companies tend to have little motivation to use corporate websites to disclose CSR information, as the demand for accessibility of information is weaker among family-owned companies (Darus *et al*., 2009; Chau and Gray, 2010). In contrast, foreign-owned companies would be more inclined to use corporate websites to disseminate their CSR information so as to reduce agency conflict between the managers and their foreign owners and to facilitate the easy access of information to their foreign stakeholders (Firth *et al*., 2007; Wang *et al*., 2008). On the other hand, for companies that are managed by directors who are also shareholders, the urgency to use an alternative medium such as corporate websites to supplement traditional reporting may be less because accessibility and accountability of information may not be as urgent. Hence, less disclosure of CSR information via web reporting can be expected in closely held or director managed companies. In terms of concentrated ownership structure, Wang and Coffey, 1992, find a negative relationship between ownership concentration and corporate philanthropy, while Reverte, 2009, argue that companies that had a greater ownership concentration disclosed less environmental information. Therefore, the hypotheses for ownership structure that can be established thus far are as follows:

***H_1**: There is a positive relationship between the percentage of government ownership and CSR web reporting*

***H_2**: There is a negative relationship between family members on the board and CSR web reporting*

***H_3**: There is a positive relationship between the percentage of foreign ownership and CSR web reporting*

***H_4**: There is a negative relationship between the percentage of director ownership and CSR web reporting*

***H_5**: There is a negative relationship between the percentage of concentrated ownership and CSR web reporting*

2.3. Institutional theory and board interlock

DiMaggio and Powell, 1983 identified three mechanisms of institutional isomorphic change; coercive, mimetic and normative processes. This study focuses on the influence of mimetic isomorphism on CSR disclosure by using board interlock as a variable to proxy for mimetic isomorphism. Board interlock which involves multiple directorships by directors will facilitate imitation strategies by managers (Westphal *et al*., 2001). Hence, in this study it is argued that the presence of board interlock will facilitate managers' imitating the strategy of other companies' CSR web reporting because this is a fairly new medium being employed to disseminate CSR information in Malaysia and it is contended that in situations of uncertainty, mimetic isomorphism is a response through which organizations by virtue of social influence processes, imitate other firms that they view to be more legitimate and successful. Therefore, it is hypothesised that:

***H_6**: There is a positive relationship between the percentage of board interlock and CSR web reporting*

3. Methodology

The sample for this study is restricted to the 120 largest public-listed companies because companies that have corporate websites comprise of mostly large public-listed companies. Data from corporate websites were collected between May and October 2010. Information from sustainability and annual reports that were uploaded on to corporate websites was omitted as the objective of this study is to examine additional CSR disclosure from corporate websites. The dependent variable for this study was measured using an un-weighted disclosure index to measure the quality of CSR disclosure. The quality disclosure score indexes were constructed as follows:

$$\sum_{i=1}^{m_j} \frac{d_j}{N}$$

The index indicates the quality of CSR disclosure for a company, where N is the maximum number of relevant items a company may disclose and d_i is equal to 0 if there is no disclosure; 1 if the information is briefly described; 2 if the information is described specifically; and 3 if the information disclosed is detailed in monetary or quantitative measurement. The scoring approach is consistent with previous studies that suggest quantified or monetary information may be more valuable than those of descriptive information (Guthrie and Parker, 1990; Thompson and Zakaria; 2004). The CSR reporting practices were identified based on the four (4) dimensions; community, environment, workplace and marketplace in accordance with the Bursa Malaysia CSR framework (2006). Table 1 provides the definition and measurement of variables for this study.

Table 1: Definition and measurement of variables

Definition	Measurement
Dependent variable: The quality of CSR disclosure (CSRDQ)	Content analysis of corporate websites. Scores of 0 to 3
Independent variables: Agency Theory: Government ownership (GOV)	Percentage of shares owned by government institutions listed in the top thirty shareholdings to total number of shares issued
Family ownership (FAM)	Percentage of family members on board to total number of directors on board
Foreign ownership (FOR)	Percentage of shares owned by foreign owners listed in the top ten shareholdings to total number of shares issued
Director ownership (DIR)	Proportion of shares held by executive and non-independent directors
Concentrated ownership (CONT)	The proportion of shares held by the ten largest shareholders as a measure of ownership concentration
Institutional Theory Mimetic Isomorphism: Board interlock (BOD)	Percentage of total number of independent non – executive directors with appointments on other boards divided by the total number of board members
Control variables: Profitability (ROA)	Return On Assets (ROA)
Size of company (SIZE)	Total Assets

4. Analysis and results

4.1. Descriptive statistics

Table 2 presents the results of CSRDQ based on the four dimensions; Community, Environment, Workplace and Marketplace. The highest mean score was recorded for Community (5.8) followed by Environment (3.1), Workplace (3.0) and Marketplace (2.6). Overall, the results reflect that the quality CSR disclosures among public listed companies on corporate websites concentrated on Community dimension.

Table 2: Descriptive statistics on the quality of CSR disclosure (CSRDQ) for the four main dimensions

Main Dimension of CSR Disclosure	Maximum Score	Minimum Disclosure	Maximum Disclosure	Mean Disclosure	Std. Devn of Disclosure
Community	21	0	20	5.8	5.8
Environment	21	0	14	3.1	4.0
Workplace	21	0	12	3.0	3.4
Marketplace	21	0	11	2.6	2.9

Table 3 presents the analysis of CSRDQ by industries. The minimum scores of 0 highlighted the fact that there were companies within these industries that did not provide CSR information on their corporate websites even though they rank among the 120 largest public-listed companies in Malaysia. The plantation industry had the highest maximum score of 51 suggesting that companies in this environmentally sensitive industry use their websites to disseminate CSR information in order to be seen as operating within socially acceptable norms. Overall, the quality score of CSR disclosure was generally low, with the highest mean core of 21.83 attributed to the consumer products industry.

Table 3:. Descriptive analysis of CSR disclosure by industry

Industry	*n*	Min	Max	Mean	Standard deviation
Trading / services	31	0	49	14.65	13.51
Finance	21	0	34	10.90	11.16
Industrial products	19	0	41	13.74	11.05
Plantation	13	0	51	16.15	16.10
Consumer products	12	0	37	21.83	13.16
Properties	9	0	42	9.33	13.23
Construction	8	0	38	17.00	14.36
Infrastructure project cos.	5	0	32	16.20	12.01
Hotel	1	17	17	17.00	0.00

Technology	1	0	0	0.00	0.00

Table 4 provides the descriptive statistics encompassing the dependent, independent and control variables of the study. The mean score of 14.45 for CSRDQ suggests that not only were the companies not providing detailed monetary information about their CSR practices on their corporate websites they were merely reporting information about the CSR activities that they had undertaken, instead of quantifying the effect of these practices. Board interlock has the highest mean of 75.59 per cent suggesting the significant presence of multiple directorships of independent non-executive directors among the board members. Interestingly enough, even though the ownership structure indicates a highly concentrated ownership (mean score of 70.98 per cent), the concentration of ownership did not rest with the executives and non-independent directors as the percentage of director ownership showed the lowest mean score (mean score 3.39 per cent).

Table 4: Descriptive analysis of dependent, independent and control variables

	Mean	Min	Max	Std. devn
Quality of CSR Disclosure (CSRDQ)	14.45	0.00	51.00	12.94
Government ownership (GOV)	21.19	0.00	89.60	22.33
Family ownership (FAM)	9.88	0.00	66.67	17.91
Foreign ownership (FOR)	12.22	0.00	81.00	19.44
Director ownership (DIR)	3.39	0.00	61.27	9.23
Concentrated ownership (CONT)	70.98	28.73	95.18	14.87
Board interlock (BOARD)	75.59	0.00	100.00	24.64
Profitability (ROA)	7.81	-4.00	52.83	7.70
Size (SIZE)	17.37m	0.325m	309.25m	43.41m

4.2. Multivariate analysis

Multiple regression analysis was used to test all the hypotheses. The regression model is as follows

$$CSRDQ = \beta_0 + \beta_1 GOV + \beta_2 FAM + \beta_3 FOR + \beta_4 DIR + \beta_5 CONT + \beta 6\ BOARD + \beta_7 ROA + \beta_8 SIZE + \varepsilon t$$

where CSRDQ represents the CSR Quality Disclosure index, β_0 corresponds to intercept, GOV equals government ownership; FAM depicts family ownership; FOR relates to foreign ownership; DIR is representative of director ownership; CONT shows concentrated ownership; BOARD exemplifies board interlock; ROA denotes profitability; SIZE equates with the size of companies and ε_t signifies an error term.

Table 5. Multiple regression results for factors affecting CSR disclosure index

Variables	Beta	t	Sig.	VIF	Tolerance
(Constant)		-1.292	.199		
GOV	.104	1.021	.309	1.517	.659
FAM	-.211	-2.217	.029*	1.317	.759
FOR	.250	2.821	.006**	1.134	.882
DIR	.101	1.024	.308	1.416	.706
OWN	-.155	-1.648	.102	1.289	.776
BOARD	.158	1.700	.092	1.258	.795
ROA	.242	2.531	.013*	1.329	.752
SIZE	.245	2.329	.022*	1.598	.626

Notes: Dependent Variable: CSRDQ (CSR Quality Disclosure Index). R Square = 0.234, Adjusted R^2 = 0.179, F = 4.2333, Sig. = 0.000. * Significant at 5 per cent level (1-tailed test); ** Significant at 1 per cent level (1-tailed test)

The results in Table 5 revealed the significance of FAM and FOR. In addition, the control variables, ROA and SIZE are also significant. The negative results in respect of FAM and CSRDQ would suggest that family-owned companies were not motivated enough to disclose CSR information on corporate websites probably because they were reluctant to make such information easily accessible to a wider group of stakeholders. Further, family-owned companies' owners have easy access to internal information, thus the urgency to disclose CSR information via corporate websites with a view to reduce agency costs is less compelling. Therefore, H_2 is accepted.

However, for foreign-owned companies, the managers were motivated to disclose CSR information on corporate websites and enable foreign investors to monitor management's activities in order to ensure that such activities were aligned with their interests, as owners. This would suggest that the existence of foreign ownership in companies provides incentives for managers to opt for wider access to information and reduce agency conflicts. Thus, H_3 is accepted.

The results of the study also indicate the absence of significant relationships between the use of corporate websites and other forms of ownership structure, suggesting that the higher or lower participation of government ownership, directors' ownership and the concentration of ownership structure did not have any influence on the choice of corporate websites as a medium to disseminate CSR information. Hence, H_1, H_4 and H_5 are rejected. The insignificant results for board interlock and CSR reporting on corporate websites also suggest that directors with multiple directorships did not facilitate imitation strategies on decisions relating to disclosure of CSR information on corporate websites. Hence, H_6 is also rejected.

5. Conclusions

The aim of this study is to investigate the influence of ownership structure and mimetic isomorphism in motivating public-listed companies in Malaysia to use web reporting to disseminate their CSR information. This is because corporate websites provide an interactive medium of reporting where real time data and immediate updates of events are made possible. The results of the study revealed that public-listed companies in Malaysia were not taking advantage of corporate websites to communicate their CSR information. This is despite the advantages offered by this medium of communication such as affording increased access to a more diverse group of stakeholders as well as the ability to utilize the inherent advantages of the digital infrastructure of electronic. Overall, the quality of CSR information disclosed was low and concentrated on issues relating to the community dimension. The plantation industry, which is considered an environmentally sensitive industry had the highest score for CSR reporting, which would imply that companies in the environmentally sensitive industries are very concerned about updating their CSR reports in order to be seen as operating within socially acceptable norms. Family ownership had a negative influence on the use of web reporting while foreign-owned companies were motivated to disseminate CSR information via their corporate websites. The availability of resources and the size of companies also contributed to web reporting. The limited use of CSR web reporting in Malaysia does suggest that companies in Malaysia prefer to resort to the traditional medium of using annual and sustainability reports to communicate their CSR dimension. The advantages offered by web reporting do not seem to have motivated public-listed companies in Malaysia to use this "new" medium of communication to supplement and update their CSR information. Perhaps, from their perspective the main purpose of developing corporate websites revolves around product or performance related information, rather than for fulfilling CSR reporting obligations.

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